1. **Face-sheet**

**STRICTLY PRIVATE AND CONFIDENTIAL**

[*It must clearly be noted on the face of the Management Letter that it is a confidential document* *and must be treated as such, in accordance with Global Fund Policy]*

[The Management Letter should state that the auditor acknowledges and agrees that the Management Letter shall be shared with the Global Fund on a confidential basis. The audience of the letter, however, is the PR/SR]

**(*Name of PR)* - MANAGEMENT LETTER FOR THE AUDIT OF FINANCIAL STATEMENTS FOR THE YEAR ENDED …….. (*Insert year end date)***

[Background information is provided on the applicable auditing framework that was employed in auditing the Financial Statements, for which there is this management letter]

[The purpose of the financial statement audit should be stated here which is the expression of an opinion on the Financial Statements and on the implementers’ compliance with the terms of the grant agreement. Also, a brief description of the methodology used in carrying out the audit as regards the use of testing as the basis for examining evidence supporting the amounts and disclosures contained in the Financial Statements, inter-alia.]

[An explanation of the purpose of the management letter should be provided in terms of the value-added in its provision to management for the improvement of systems and processes for the organization, thereby aiding the achievement of broader organizational goals.]

1. **Executive summary**

[Points to be covered in paragraphs (not tables, except for last point)]

* List of key Sub-Recipients
* Materiality for sampling
* Summary of Audit Risks & Methodology
* Key risks identified
* Key Control Procedures and overall rating for PR and key SRs. Whilst the key control procedures are identified by the auditors, this part should communicate their overall evaluation rating on the following two aspects, using the scale: Effective, Partially Effective, Ineffective[[1]](#footnote-1). The explanation to the ratings is expected in the section 5 in this Management Letter.
  + internal control as a whole including Information Technology General Controls (ITGCs) for PR and key SRs; .
  + controls related to Principal Recipient or Global Fund hired third party agents including review of the terms and conditions of their engagement and adherence thereof.
* As part of the comprehensive audit report, we are required to also **identify, evaluate and report on the auditee’s internal control structure as per the following functional areas:**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **#** | **Functional areas** | **Inadequate Flow of Funds Arrangements** | | | **Inadequate Internal Controls** | | | **Financial Fraud, Corruption and theft** | | | **Inadequate Accounting and Financial Reporting** | | | **Limited Value for Money** | | | **Inadequate Auditing Arrangements** | | |
|  | **Grading** | **I** | **II** | **III** | **I** | **II** | **III** | **I** | **II** | **III** | **I** | **II** | **III** | **I** | **II** | **III** | **I** | **II** | **III** |
| **1** | Financial management |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **2** | Sub-recipient management |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **3** | Program management |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **4** | Stock management |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **5** | Procurement management |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **6** | Compliance with grant agreement and applicable law |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Each of our findings is explained in detail below, which also provide the management comments on our recommendations. We have given a priority rating to each recommendation in order to highlight those that we consider are more critical than others. The rating we have used is as follows:

|  |  |
| --- | --- |
| **Priority reference** | **Description of grading** |
| I | **Critical:** There is a fundamental weakness or deficiency in an internal control or in a series of internal controls which involves a substantial risk of either material error, or irregularity or fraud with regard to the expenditure and revenue stated in the Special Purpose Grant Financial Statement of the Grant. **Grade I** findings are particularly critical, and the involvement of management may be required for their resolution. These are high-level issues which impact seriously on the achievement of overall grant goals. Remedial action should be taken urgently. |
| II | **Important:** There is a weakness or deficiency in an internal control or in a series of internal controls which, although not fundamental, relates to shortcomings which expose specific internal control areas (e.g. cash and bank management or budgetary and expenditure control) to a less immediate level of risk of either error, or irregularity or fraud. **Grade II** findings are those that may have significant impact on the control environment. Here control environment looks at risk factors derived from management’s attitude to risk regarding operational activities within the Principal Recipient/Sub-recipient organization. Prompt specific action should be taken. |
| III | **Recommended:** There is a weakness or deficiency in internal control which individually has no major impact but where the Grant would benefit from improved internal controls and/or where the implementer would have the opportunity to achieve greater effectiveness and/or efficiency. **Grade III** findings are those which are less significant than Grade 1 and II but nevertheless merit attention. |

1. **Findings and recommendations for the audited period**

[**Auditor’s confirmation**]: The findings and observations below are the result of implementing the audit scope of work stated in the terms of reference section 7 of the Guidelines for Annual Audit of Global Fund Grants and materiality as outlined in xx of the audit report. All other sections were adequately reviewed and we confirm no material observations to bring to your attention.

For each finding: [ Instructions below 1.0 to 1.6 to be deleted from ML]

**1.0** [Brief heading for finding and Grade 1, 2 or 3 as is applicable]

[Where there is a criteria (or criterion as the case may be) which is the object of non-compliance by the PR/Sub-recipient, then this must be stated or quoted where applicable. A criterion is defined as any law, policy, regulation or framework that an audited entity has to comply with in carrying out its activities. A deviation or complete non-compliance of it would trigger a finding. In some instances, criteria would not be present hence it would not be necessary to state it here.]

* 1. **FINDING**

[The condition or issue presently obtaining which could have been as a result of non- compliance of a criteria is stated here fully. This must be consistent with the grading level indicated above. Where possible, the reason(s)/rationale for the non-compliance to the criteria or factors responsible for the finding issue should be stated in a separate paragraph or section under FINDING.]

* 1. **IMPLICATION**

[The effect of the finding both from a financial and non-financial perspective should be clearly stated here as this will provide better insights to the Principal Recipient /Sub-recipient entity in formulating a robust management response and action plan for implementation of recommendations.]

* 1. **RECOMMENDATION**

[Practical recommendations relevant to the findings stated in 1.1 above should be put in this category. Recommendations should be capable of eliminating or reducing the effects identified in 1.2 above (to an acceptable level) such that there will be no negative material impact on grant implementation upon its initiation by Principal Recipient /Sub-recipient management.]

* 1. **BENEFITS**

[The advantages of implementing the recommendations stated in 1.3 above should be highlighted here from a financial and non-financial perspective. The use of financial data in terms of for example, cost savings, should be stated here.]

* 1. **MANAGEMENT’S RESPONSE**

[PRs/SRs are required to state the extent to which they agree or disagree with the finding indicated above. This should extend further to whether they agree or disagree with all the other elements to the management letter (i.e. 1.2 to 1.4). These should include reasons for the agreement or disagreement.

As part of the management response the PR should develop an action plan to address any pertinent recommendations emanating from the PR and SR Audits.

* 1. **AUDITOR’S FURTHER COMMENTS**

[Include the auditor’s evaluation to the PR’s resposes and specify if the recommendation remains pertinet, or is removed]

**3.1 Summary of audit findings and observations for [ Principal Recipient ]**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Functional Area | Grade | Finding | Implication | Recommendation | Benefits | Management’s response | Auditor’s further comments |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

**3.2 Summary of audit findings and observations for [ Key Subrecipient ] [to be repeated by entity audited]**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Functional Area | Grade | Finding | Implication | Recommendation | Benefits | Management’s response | Auditor’s further comments |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

**3.3.** **Financial impact of findings by cost grouping and implementer**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cost grouping** | **Total expenditure** | | **PR** | | | | **SR1** | | | | | **SR2** | | | | | **SR3** | | | | | | | **Total** | | |
|  |  | **Number of Findings** | | **Ineligible amount** | **% of cost category** | **Number of Findings** | | **Amount involved** | | | **% of cost category** | | **Number of Findings** | **Amount involved** | **% of cost category** | | | **Number of Findings** | | **Amount involved** | | **% of cost category** | **Number of Findings** | | **Amount involved** | **% of cost category** |
| 1.0 Human Resources (HR) | 1000 | | 2 | 50 | 80% | | 1 | | 30 | 20% | | 1 | | 200 | | 20% | 1 | |  | | 20% | | | 5 | 280 | 28% |
| 2.0 Travel related costs (TRC) |  | |  |  |  | |  | |  |  | |  | |  | |  |  | |  | |  | | |  |  |  |
| 3.0 External Professional services |  | |  |  |  | |  | |  |  | |  | |  | |  |  | |  | |  | | |  |  |  |
| 4.0 Health Products (HPPP) |  | |  |  |  | |  | |  |  | |  | |  | |  |  | |  | |  | | |  |  |  |
| 5.0 Health Products (HPNP) |  | |  |  |  | |  | |  |  | |  | |  | |  |  | |  | |  | | |  |  |  |
| 6.0 Health Products (HPE) |  | |  |  |  | |  | |  |  | |  | |  | |  |  | |  | |  | | |  |  |  |
| 7.0 Procurement and Supply-Chain |  | |  |  |  | |  | |  |  | |  | |  | |  |  | |  | |  | | |  |  |  |
| 8.0 Infrastructure (INF) |  | |  |  |  | |  | |  |  | |  | |  | |  |  | |  | |  | | |  |  |  |
| 9.0 Non-health equipment (NHP) |  | |  |  |  | |  | |  |  | |  | |  | |  |  | |  | |  | | |  |  |  |
| 10.0 Communication Material |  | |  |  |  | |  | |  |  | |  | |  | |  |  | |  | |  | | |  |  |  |
| 11.0 Program Administration |  | |  |  |  | |  | |  |  | |  | |  | |  |  | |  | |  | | |  |  |  |
| 12.0 Living support (LSCTP) |  | |  |  |  | |  | |  |  | |  | |  | |  |  | |  | |  | | |  |  |  |
| 13.0 Payment for Results |  | |  |  |  | |  | |  |  | |  | |  | |  |  | |  | |  | | |  |  |  |
| Transversal findings | N/A | |  | N/A |  | | N/A | |  | N/A | | N/A | |  | | N/A | N/A | |  | | N/A | | |  |  |  |

**3.4.** **Expenditure coverage**

We are required to provide details of the sampling expenditure coverage by budget cost grouping line and recipient and the sample selection methodology.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **By Cost Grouping** | **Current period’s Expenditure amount** | **Amount covered by Sample** | *%* | *Sample selection methodology  Control-based vs substantive. When substantive, disclose the relative size of sample population tested. When control based, comment on the existence and effectiveness of the control systems.* |
| 1.0 Human Resources (HR) |  |  | #DIV/0! |  |
| 2.0 Travel related costs (TRC) |  |  |  |  |
| 3.0 External Professional services (EPS) |  |  |  |  |
| 4.0 Health Products - Pharmaceutical Products (HPPP) |  |  |  |  |
| 5.0 Health Products - Non-Pharmaceuticals (HPNP) |  |  |  |  |
| 6.0 Health Products - Equipment (HPE) |  |  |  |  |
| 7.0 Procurement and Supply-Chain Management costs (PSM) |  |  |  |  |
| 8.0 Infrastructure (INF) |  |  |  |  |
| 9.0 Non-health equipment (NHP) |  |  |  |  |
| 10.0 Communication Material and Publications (CMP) |  |  |  |  |
| 11.0 Programme Administration costs (PA) |  |  |  |  |
| 12.0 Living support to client/ target population (LSCTP) |  |  |  |  |
| 13.0 Payment for Results |  |  |  |  |
|  |  |  |  |  |
| **By Recipients** | **Current period’s Expenditure amount** | **Amount covered by Sample** | *%* | *Sample selection methodology* |
|  |  |  | #DIV/0! |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

1. **Findings and recommendations from the previous audited periods**

Our assessment of the implementation of recommendations made from the prior year audit report relating to the period [January to 31 December 2020.] are detailed in the table Matters arising from previous audits.

The status of the findings / recommendations at the date of our audit in terms of implementation was as follows:

|  |  |
| --- | --- |
| Implemented | xxx |
| Not applicable | xxx |
| Partially implemented | xxx |
| Not implemented | xxx |
| **Total** | **xxx** |

**MATTERS ARISING FROM PREVIOUS AUDITS**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Audit period**  **covered** | **Issue (i.e. the finding**  **identified)** | **Recommendations** | **Status of**  **Implementation** | **Comments** |
| The period covering the audit is stated here: it should follow chronologically from one year to the next | The findings of previous audits are entered here. The findings should be quoted verbatim or reproduced from the relevant management letter | The recommendations related to the findings from the previous column are entered here quoting verbatim from the relevant management letter | The state of implementation is entered here via the following key:  Y (Yes) – showing full implementation of recommendations,  N (No) - showing that the recommendation remains to be implemented and as such no steps have been taken to commence implementation,  P (Partial) – showing that implementation has commenced but is yet to be completed | For N and P categories, an indication of the audit period from when the finding & recommendation was first identified should be stated, inter- alia |

1. **Internal Control Framework**

We are required to report on matters that have come to our attention during the audit which might have a significant impact on the implementation and sustainability of the grant program, notably:

**5.1 Minimum reporting points**

[If any of the matters specified below is found as not material, the point is to be kept and the auditor should note: “Reviewed and matter not significant”], otherwise the points need to be evaluated using the following: [Rating scale: Effective, Partially Effective, Ineffective + Justification]

1. **Functional areas:** [this section should capture all other key internal control issues noted by the auditor in performing the review described in the scope of work particularly in the following sub-categories
   * 1. Financial management
     2. Sub-recipient management
     3. Program management
     4. Stock management
     5. Procurement management
2. Information Technology General Controls (**ITGCs**);
3. Controls related to Principal Recipient or Global Fund hired **third party agents** including review of the terms and conditions of their engagement and adherence thereof.
4. **Compliance with grant agreement and applicable law**: [this section should highlight any instances of non-compliance with the relevant grant agreement that were noted by the auditor in the course of their work in forming an opinion on the SPGFS or confirm that none has been identified in the sample tested. This implies that the auditor should ensure that the expenditure corresponds to the activity approved in the detailed budget for the relevant period under review as well as corresponds to any subsequent budgetary adjustments including the required necessary approvals for such budget reallocations;]
5. **Value for Money: [**this section should capture the auditor’s view on the Principal Recipient and sub-recipient’s considerations regarding economy and efficiency as part of the auditor’s review of grant expenditures. The Global Fund country team can make a request for this additional service to be delivered by the auditor. All issues noted around value for money (control deficiency, estimated loss incurred as a result of inefficient process and others) should be stated in this section of the Management Letter;]
6. **Summary of key risks and the related control procedures of the recipients**
7. **Taxes**
8. **COVID 19:** [Evaluate the impact of COVID19 in the internal control environment]

**5.2** **Other Internal control areas**

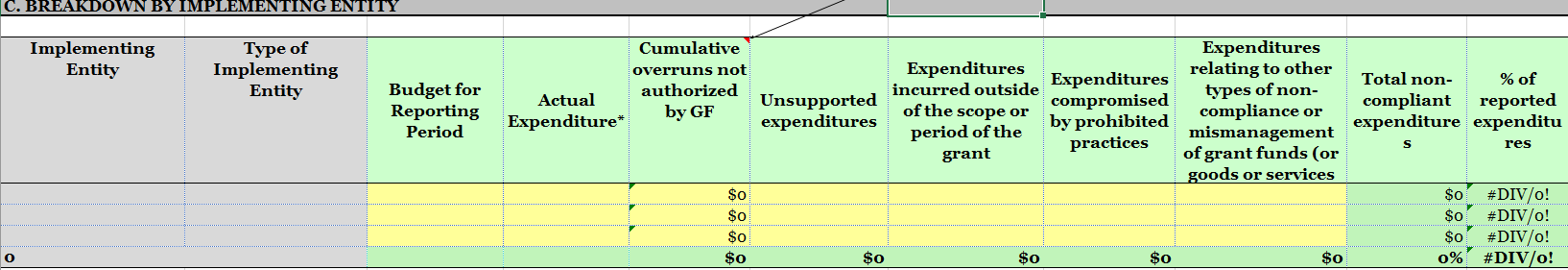
[ Process to choose from the list below, or to add in last row. If no other matters are identified, this is to be stated in this section of the report] [Rating scale: Effective, Partially Effective, Ineffective + Justification]

* Entity level Control
* Financial reporting closing process
* Cash management (Bank reconciliation, petty cash, collection)
* Inventories management
* Training management
* Monitoring and evaluation systems

**5.3** **Schedule of non-compliant expenditures**

Below an extract of the amounts of non-compliant expenditures detected during the audit. The full information (I.e., by intervention and comments for cumulative overruns) is attached to this report in the electronic version (template) provided by Global Fund.





ll

1. **Risk Management Section**

The TORs require the auditor to categorize of the level of risk for each of the six sub-categories of the Global Fund’s defined financial risks. We provide the relevant summary table showing the perceived risk level in any of the following Global Fund’s defined levels: Low, Moderate, High, Very High; and related explanations.

The risks are presented per grant (global risk), and the implementer’s level contribution to the global risk based on materiality of funds put at risk.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Overall financial risk assessment | Grant |  | PR | SR1 | SR2 | SR3 | SR4 |
| Flow of Funds Arrangements; |  |  |  |  |  |  |  |
| Internal Controls; |  |  |  |  |  |  |  |
| Financial Fraud, Corruption and theft; |  |  |  |  |  |  |  |
| Accounting and Financial Reporting; |  |  |  |  |  |  |  |
| Limited Value for Money; |  |  |  |  |  |  |  |
| Inadequate Auditing Arrangements |  |  |  |  |  |  |  |

[ Comments to the risk ratings]

1. Flow of Funds Arrangements;
2. Internal Controls;
3. Financial Fraud, Corruption and theft;
4. Accounting and Financial Reporting;
5. Limited Value for Money;
6. Inadequate Auditing Arrangements
7. **Other important disclosures**

[ To fill-in as necessary. If not applicable, please state it: N/A]

1. |  |  |
   | --- | --- |
   | Effective | No issues or few minor issues noted. Internal controls, governance and risk management processes are adequately designed, consistently well implemented, and effective to provide reasonable assurance that the objectives will be met. |
   | Partially Effective | Moderate issues noted. Internal controls, governance and risk management practices are adequately designed, generally well implemented, but one or a limited number of issues were identified that may present a moderate risk to the achievement of the objectives |
   | Ineffective | Multiple significant and/or (a) material issue(s) noted. Internal controls, governance and risk management processes are not adequately designed and/or are not generally effective. The nature of these issues is such that the achievement of objectives is seriously compromised. |

   [↑](#footnote-ref-1)